



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# **Tax Incentives for Employers Lesson 6**



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# Agenda

- **Work Opportunity Credit**
- **Welfare-to-Work Credit**



# Objectives

- **Name the target groups and dates of eligibility for the Work Opportunity Credit**
- **Name the group and dates of eligibility for the Welfare-to-Work Credit**
- **Prepare the IRS and Department of Labor forms for pre-screening and certification of these credits**



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# Work Opportunity Credit





# Background

- Incentive for all employers to hire from groups that have:
  - high unemployment ratio or
  - other special needs
- Qualifications to claim the credit:
  - pay or incur “qualified first-year wages”
  - to a “targeted group employee”
  - who began work for you after September 1997
- Can be as high as \$2400/employee



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# **Targeted Group Employee**

- **Receives assistance under Temporary Assistance for Needy Families (TANF)**
- **Veteran**
- **Ex-felon**
- **High-risk youth**
- **Vocational rehabilitation referral**
- **Summer youth employee**
- **Food stamp recipient**
- **Supplemental security income (SSI) recipient or**
- **NY Liberty Zone employee (See Form 8884, NY Liberty Zone Business Employee Credit)**



# **State Certification Required**

- **Submit Form 8850, Pre-Screening Notice and Certification Request to your state employment security agency (SESA) on time**
- **File Department of Labor (DOL) forms with your SESA:**
  - **U.S. DOL ETA-9061 if employee not conditionally certified by your SESA or participating agency**
  - **U.S. DOL ETA-9062 if given to applicant by a participating agency**



# **Qualified First Year Wages**

- **Qualified wages for work performed**
  - **by a targeted group employee**
  - **during the 1-year period beginning on the date the work begins**
- **Generally subject to FUTA tax**
- **The one-year period can span two tax years**





# **Non-Qualified Wages**

- **Has worked for you more than 1 year**
- **Is your relative or dependent**
- **Worked for you previously or**
- **Does not work for you at least 120 hours**

**See Form 5884, WORK OPPORTUNITY CREDIT, for a complete list of wages that do not qualify for the credit.**



# Claiming the Credit

- **Attach Form 5884 to your tax return**
- **Use Form 3800 for credit limits if also claiming Welfare-to-Work Credit**
- **Reduce salaries/wages deduction by the amount of the Work Opportunity Credit**
- **Do not claim Work Opportunity AND Welfare-to-Work Credit for same employee**



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# Welfare to Work Credit





# Background

- Incentive for all employers to hire long-term family assistance recipients
- Qualifications to claim the credit:
  - Pay or incur “qualified wages”
  - during the first 2 years of employment
  - to a “long-term family assistance recipient”
  - who started work for you after Dec. 1997



# **Long-term Family Assistance Recipient**

- **Certified by your SESA as a member of a family that:**
  - **Received Temporary Assistance for Needy Families (TANF) payments**
    - **For the required amount of time**
    - **Within the required timeframes**
  - **Stopped receiving TANF payments after August 5, 1997 because:**
    - **Federal/state limits on the maximum period that TANF is payable AND**
    - **Hired within the required timeframe**



# **State Certification Required**

- **Submit Form 8850, Pre-Screening Notice and Certification Request to your state employment security agency (SESA) on time**
- **File Department of Labor (DOL) forms with your SESA:**
  - **U.S. DOL ETA-9061 if employee not conditionally certified by your SESA or participating agency**
  - **U.S. DOL ETA-9062 if given to applicant by a participating agency**



# Qualified Wages

- **Subject to FUTA**
- **Up to \$10,000 can qualify**
- **Amounts received for medical care under accident and health plans**
- **Employer-provided coverage for these plans**
- **Certain amounts excludable under educational assistance program**
- **Amounts excludable under dependent care assistance programs**



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# **Non-qualified Wages**

- **Has worked for you more than 2 years**
- **Is your relative or dependent**
- **Worked for you previously**
- **Does not either**
  - **Work for you at least 180 days or**
  - **Complete at least 400 hours of service**





# Amount of Credit

- **Qualified First-Year Wages**
  - Rate = 35%
  - Maximum Qualified Wages = \$10,000
  - Maximum Credit = \$3,500
- **Qualified Second-Year Wages**
  - Rate = 50%
  - Maximum Qualified Wages = \$10,000
  - Maximum Credit = \$5,000



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# **Claiming the Credit**

- **Attach Form 8661 to your tax return**
- **Use Form 3800 for credit limits if also claiming Work Opportunity Credit**
- **Reduce salaries/wages deduction by the amount of the Welfare-to-Work Credit**
- **Do not claim Work Opportunity AND Welfare-to-Work Credit for same employee**



**Internal Revenue Service**

**Small Business and Self-Employed**

**Taxpayer Education and Communication**

# **Need More Information?**

- ***Pub. 954 – Tax Incentives for Empowerment Zones and Other Distressed Communities***
- ***Website: [www.irs.gov](http://www.irs.gov)***
- ***Visit a local office***
- **1-800-829-4933 Business and Specialty Tax Line**